ZONING AND ASSESSMENT

HAMILTON-WENTWORTH INDUSTRIAL SECTOR STUDY

REPORT NUMBER 3

URBAN DOCUMENTATION CENTRE
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MAY 1985

007484

EXECUTIVE SUMMARY

The report answers a request from the Economic Development Committee to analyze the effect of zoning policy on the level of assessment and taxation in Hamilton-Wentworth's Industrial-Business Parks. The Committee requested that staff:

> Investigate and report on the implications on property assessment and taxation of industrial and commerical zoning and of the effects of the current taxation situation on the relative attractiveness of the Region's Industrial Business-Parks as a location for development rather than other non-industrial designated areas.

FINDINGS

1. Zoning affects two of the four key variables that determine the amount of tax paid by a business in Hamilton-Wentworth.

2. The two key variables affected by zoning are the assessed market value of property and the classification of property as industrial or commercial.

3. Zoning affects market value by specifying the types of uses permitted on a property. Commercially-zoned land generally sells in smaller parcels at higher prices per unit area than industrially-zoned land. Industrial zones that permit a limited range of commercial uses probably would have a market value somewhere in between.

4. Zoning affects the classification, which determines whether an industrial or commercial assessment factor is applied. The decision is based on a combination of the zoning of the property, the physical structure of the building, and the use of the property. Zoning is the most important criterion to the assessor as long as the zoning limits the types of possible uses and the land is used for industrial or commercial purposes.

5. The industrial and commercial assessment factors differ from each other and vary from municipality to municipality in Hamilton-Wentworth.

6. Ignoring the higher market value of commercially-zoned property, firms would pay less tax in a commercial zone in Hamilton and Stoney Creek and in an industrial zone in Glanbrook, Flamborough, and Ancaster.

7. Frequently the market value of land is high enough to offset the difference in assessment resulting from the assessment factors.

SUMMARY OF POLICY IMPLICATIONS

In theory, tax savings for businesses could be realized by manipulating the zoning in the parks to encourage the assessors to apply the lower of the industrial or commercial assessment factors. In municipalities where the commercial factor is lower than the industrial factor, commercial zones could be introduced into the park. In municipalities where the industrial factor is lower than the commercial factor, the permitted uses in industrial zones could be broadened to permit selected commercial uses.

In practice, these tax advantages either are already available, or are unlikely to be achieved in the long run because zoning affects assessed market values as well as the choice of assessment factors. If they were achieved, the municipalities would lose industrial and commercial tax revenue, which would have to be recovered from other classes of assessment.

SUMMARY OF CONCLUSIONS

Zoning therefore is not an appropriate policy instrument for attempting to improve the attractiveness of Hamilton-Wentworth's Industrial-Business Parks. Differences in assessment factors for similar uses in commercial and industrial zones in Hamilton and Stoney Creek do not normally translate into equivalent differences in assessment because of the compensating influence of differences in market value.

INTRODUCTION

The purpose of this report is to analyse the effect of zoning policy on the level of property assessment and taxation in Hamilton-Wentworth's Industrial-Business Parks.

The report has five main sections. The first section is a brief description of the way in which property assessment and taxes are determined. The next two sections describe how zoning affects assessment and taxes through its effect on market value and assessment factors. The fourth section applies the findings to zoning policy in the municipalities in Hamilton-Wentworth. The final section draws conclusions.

The report does not examine the more general issue of tax differences among the municipalities of Hamilton-Wentworth nor does it compare taxes in Hamilton-Wentworth with taxes in other municipalities.

HOW PROPERTY TAXES ARE DETERMINED

The amount of tax paid by a business in Hamilton-Wentworth is determined by four key variables:[1]

(1) the market value of the property in whatever base year the area municipality is using for assessment purposes (with the exception of Dundas, which is not on market value assessment);

(2) whether a commercial or industrial assessment factor is applied, which depends on whether the property is considered commercial or industrial by the assessor;

(3) the business tax percentage applicable to the type of business; and,

(4) the area municipality's mill rate.

The following series of equations expresses the relationships between the main variables in determining property tax:

REALTY ASSESSMENT = BASE YEAR MARKET VALUE X FACTOR

BUSINESS ASSESSMENT = REALTY ASSESSMENT X BUSINESS TAX PERCENTAGE

REALTY TAX = REALTY ASSESSMENT X MILL RATE

BUSINESS TAX = BUSINESS ASSESSMENT X MILL RATE

TOTAL PROPERTY TAX = REALTY TAX + BUSINESS TAX

1. Other considerations, such as local improvement or business improvement area charges, may also affect taxes in some cases.

Zoning can affect both the market value of a property and whether the assessor treats it as commercial or industrial. Zoning does not affect the business tax percentage or the mill rate.

ZONING AND MARKET VALUE

The market value for assessment purposes depends on the base year approved by the Council of a municipality opting for market value assessment. Hamilton and Stoney Creek are assessed at 1975 market values. Ancaster, Flamborough and Glanbrook are assessed at 1980 market values.

Assessors determine the market value of industrial and commercial properties by means of the cost approach, the income approach, or a combination of both.

The cost approach involves determining the value of the land and buildings separately and then adding them together. The value of the land is usually determined by an analysis of the selling prices of similar properties in the base year selected.[1] The value of the buildings is determined using a 1969 assessment cost manual with prices adjusted to the base year. The cost approach is used to assess industrial properties and properties that are not sold on the open market (e.g., arenas, schools, churches).

The income approach determines market value on the basis of the income generated by the building. The usual method is to capitalize net income or rental information provided by the owner and compare it with similar buildings.[2] The income approach is used for commercial buildings such as offices or hotels, because the income-generating potential of the building is a more accurate indicator of market value than the value of the land and the physical structure.

Zoning affects market value by specifying the types of uses permitted on a property. Commercially-zoned land generally sells in smaller parcels at higher prices per unit area than industrially-zoned land. Industrial zones that permit a limited range of commercial uses probably would have a market value somewhere in between.[3] If two properties have similar locational advantages but different zonings, the one with the zoning that permits the higher value uses can be expected to have a higher market value.

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1. If there were not enough sales of comparable raw land in the base year plus or minus a few months, then the assessors use either a residual technique (i.e., they subtract the estimated building value from the total price) or ask the purchaser for separate valuations of the land and buildings.
2. The Assessment Act allows the Assessment Office to require completion of a questionnaire on income and expenses for all income-producing properties.
3. The inclusion of commercial uses in industrial zones could be expected to increase the market value of the industrially zoned land somewhat, compared to industrial zones that did not permit commercial uses.

Assessors differentiate between industrial and commercial areas in determining market values, but generally do not differentiate between categories of the same type of zoning in the same area. For example, properties in an industrial park covered by four industrial zones would not necessarily be assessed at different market values because of differences in the uses permitted in the four zones.

Properties zoned commercial in an industrial area could be assessed at either industrial or commercial market values, depending upon the use of the property, surrounding land values, and the treatment of similar uses in the same industrial area. Since industrial land values tend to be lower than commercial values, and commercial land values in industrial areas are probably somewhat lower than in commercial areas, uses permitted in both industrial and commercial zones would be assessed at a lower rate if they choose to locate in industrial areas, other things being equal.

Zoning is not the only variable affecting market value, and market value is not the only variable affecting assessment. Properties with the same zoning can have significantly different market values arising from differences in location. These differences in market value can be much greater than the differences attributable to zoning alone. Furthermore, the differences in assessment caused by differences in market value can be offset by differences in assessment factors.

ZONING AND ASSESSMENT DISCOUNT FACTORS

Once the assessor has assigned a base year market value, the market value is multiplied by either an industrial or commercial assessment factor to determine the realty assessment:

$$\text{REALTY ASSESSMENT} = \text{BASE YEAR MARKET VALUE} \times \text{FACTOR}$$

The factors express the ratio of assessed value in the year before the introduction of market value assessment to the base year market value for all properties in the assessment class:

$$\text{FACTOR} = \frac{\text{ASSESSED VALUE OF CLASS BEFORE MARKET VALUE ASSESSMENT}}{\text{BASE YEAR MARKET VALUE OF CLASS}}$$

The factors are a necessary part of the assessment calculatior because the Assessment Act requires that the total assessed value in each class of assessment remain essentially the same after the introduction of market value assessment or a change in the base year. In practice this is interpreted to mean within 2 per cent.

Industrial and commercial properties are considered different classes of assessment and are assigned different assessment discount factors. The industrial and commercial factors vary among the area municipalities. They are shown in Table 1.

TABLE 1
FACTORS USED IN CALCULATING REALTY ASSESSMENT[1]
IN PER CENT

Municipality	Industrial Factor	Commercial Factor
Hamilton	19.367	16.889
Stoney Creek	29.751	19.701
Ancaster	8.60	9.20
Dundas	none	none
Flamborough	7.50	7.80
Glanbrook	8.50	9.70

Hamilton converted to market value assessment in 1979 with 1975 as the base year. Hamilton's industrial factor is 19.367, which means that for every $1 million of 1975 market value of industrial development existing in 1978, there was $193,670 of assessed value under the old system of assessment immediately before the implementation of market value assessment. The same derivation of the factors applies to other municipalities and other classes of assessment.

The differences in the size of the factors for the same assessment class in different municipalities are the result of differences in cost manuals and assessment practices among municipalities before the introduction of Province-wide assessment.

1. The factors referred to in Table 1 are termed "regulated" factors by the Assessment Office, which means they are published in the Ontario Gazette and must remain constant across a municipality. The unregulated factors used in Dundas vary by location within the municipality.

The assessor is responsible for determining whether the industrial or commercial factor is most appropriate for a property. The decision is based on a combination of the zoning of the property, the physical structure of the building and the use of the property. **Zoning is the most important criterion as long as the zoning limits the types of possible uses and the land is used for industrial or commercial purposes.** When the zoning is very general the physical structure is used to classify the building as industrial or commercial. If it is still unclear whether the property should be assessed as commercial or industrial after examining the zoning and the structure of the building, the use of the property is taken into account. The assessors also attempt to maintain consistency among similar uses in similar areas.

Tables 2 and 3 show the effect of the industrial and commercial factors on assessment and taxes by municipality for a firm with an assessed market value assessment of $100,000 and a business tax percentage of 30 per cent. The 1984 mill rates are used for all municipalities.

The tables allow comparisons of the effect of industrial and commercial factors within municipalities. Comparisons between municipalities should be made with caution, because $100,000 of market value in different municipalities does not necessarily represent similar buildings. Similar buildings can vary widely in market value between municipalities as a result of locational considerations unrelated to assessment or zoning. The difference in base years for market value assessment also makes meaningful inter-municipal comparisons difficult.

Table 3 also shows the change in taxes per $100,000 of base year market value that would result from application of the commercial rather than the industrial factor in each municipality. The change in Stoney Creek is particularly noteworthy, with commercial properties paying over $2,400 less than industrial properties per $100,000 of 1975 market value[1], assuming a 30 per cent business tax rate, and assuming no offsetting increase in assessed market value.

The Mountain Industrial-Business Park in Hamilton provides an example of the potential effect of zoning. A substantial area in the Park is zoned Prestige Industrial. The Prestige Industrial zones permit a number of commercial uses. All properties in the Prestige Industrial zones, including the commercial properties, are assessed using the industrial factor because of the industrial zoning. If these commercial properties had a commercial zoning they would be assessed using the commercial factor, which would result in a tax reduction of $868 for every $100,000 of market value assessment, assuming a business tax rate of 30 per cent, and assuming no offsetting increase in assessed market value.

Since zoning is the most important criterion for determining whether a property is assessed using an industrial or commercial factor, zoning clearly influences assessment. Table 3 suggests that firms that could locate in either a commercial or an industrial zone woud pay less tax in a commercial zone in Hamilton and Stoney Creek and in an industrial zone in Glanbrook, Flamborough and Ancaster.

TABLE 2

INDUSTRIAL ASSESSMENT AND TAXES IN HAMILTON-WENTWORTH
ASSUMING $100,000 MARKET VALUE AND
30% BUSINESS TAX PERCENTAGE

MUNICIPALITY	HAMILTON	STONEY CREEK	ANCASTER	FLAMBOROUGH	GLANBROOK
MARKET VALUE BASE YEAR	1975	1975	1980	1980	1980
YEAR IMPLEMENTED	1979	1980	1983	1984	1984
1 MARKET VALUE	$100,000	100,000	100,000	100,000	100,000
2 INDUSTRIAL FACTOR (%)	19.367	29.751	8.60	7.5	8.5
3 CURRENT REALTY ASSESSMENT (1X2)	$19,367	29,751	8,600	7,500	8,500
4 BUSINESS TAX PER CENT (%)	30.0	30.0	30.0	30.0	30.0
5 BUSINESS ASSESSMENT (3X4)	$5,810	8,925	2,580	2,250	2,550
6 TOTAL ASSESSMENT (3+5)	$25,177	38,676	11,180	9,750	11,050
7 1984 MILL RATE ($/$1,000)	269.436	186.12	348.75	341.68	326.05
8 REALTY TAXES (3X7) excluding local improvements	$5,218	5,537	2,999	2,563	2,771
9 BUSINESS TAXES (5X7)	$1,565	1,661	900	769	831
10 TOTAL TAXES (8+9)	$6,783	7,198	3,899	3,332	3,602

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TABLE 3

COMMERCIAL ASSESSMENT AND TAXES IN HAMILTON-WENTWORTH
ASSUMING $100,000 MARKET VALUE AND 30% BUSINESS TAX PERCENTAGE

MUNICIPALITY	HAMILTON	STONEY CREEK	ANCASTER	FLAMBOROUGH	GLANBROOK
MARKET VALUE BASE YEAR	1975	1975	1980	1980	1980
YEAR IMPLEMENTED	1979	1980	1983	1984	1984
1 MARKET VALUE	$100,000	100,000	100,000	100,000	100,000
2 COMMERCIAL FACTOR (%)	16.889	19.701	9.2	7.8	9.7
3 CURRENT REALTY ASSESSMENT (1X2)	$16,889	19,701	9,200	7,800	9,700
4 BUSINESS TAX PER CENT (%)	30.0	30.0	30.0	30.0	30.0
5 BUSINESS ASSESSMENT (3X4)	$5,067	5,910	2,760	2,340	2,910
6 TOTAL ASSESSMENT (3+5)	$21,956	25,611	11,960	10,140	12,610
7 1984 MILL RATE($/$1,000)	269.436	186.125	348.75		326.05
8 REALTY TAXES (3X7) excluding local improvements	$4,550	3,667	3,208	2,665	3,163
9 BUSINESS TAXES (5X7)	$1,365	1,100	963	800	949
10 TOTAL TAXES (8+9)	$5,915	4,767	4,171	3,465	4,112
CHANGE IN TAXES USING COMMERCIAL RATHER THAN INDUSTRIAL FACTOR.	-$868	-$2,431	+$272	+$133	+$509

However, this ignores the effect on taxes of the increased market value of commercially-zoned property. Assuming equivalent buildings, the assessed market value of a commercial property will normally be significantly higher than an industrial property, because of the difference in land values. The Assessment Office has advised the Planning and Development Department that these differences frequently can be sufficiently high to overwhelm any differences attributable to differences in the discount factors.

POLICY IMPLICATIONS

The key policy issue arising from the discussion of the effect of zoning on assessment is whether zoning can or should be used to lower assessments in the Industrial-Business Parks to make the parks more attractive for development. This issue is relevant for uses that can locate in either a commercial or an industrial zone.

Certain types of commercial uses are permitted in both industrial and commercial zones.[1] Table 4 shows a number of these uses and the zones in which they are permitted in each municipality. Examples include offices, services to industry, and laboratories. Table 5 shows the industrial zones in which some commercial uses are permitted and the industrial zones in which only industrial uses are permitted in each municipality. All of the Industrial-Business Parks except for Clappison's Corners, contain industrial zones in which at least some commercial uses are permitted. The Clappison's Corners Park has not yet been zoned industrial.

The area municipalities offer commercial uses a choice of commercial or industrial zones to varying degrees, depending upon the flexibility of their industrial zoning. For example, Hamilton permits a wide variety of commercial uses in industrial zones, both inside and outside the Industrial-Business Park.

Relatively few commercial uses are likely to choose between commercial and industrial areas on the basis of differences in assessment, partly because relatively few commercial uses find a predominantly industrial area acceptable, and partly because other considerations are probably more important in locational decisions than differences in assessment between zones. Commercial uses that do locate in industrial areas are typically space extensive, are providing services to industry, are part of a combined manufacturing and commercial operation, or are in wholesaling and distribution.

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1. Industrial uses are only permitted in industrial zones, with the exception of Hamilton's Central Business District, which permits both industrial and commercial uses.

TABLE 4

SELECTED COMMERCIAL USES PERMITTED IN INDUSTRIAL ZONES

BY MUNICIPALITY

USE*	HAMILTON	STONEY CREEK	ANCASTER	DUNDAS	FLAMBOROUGH***	GLANBROOK
WIDE VARIETY OF COMMERCIAL USES	M-11, J, K, KK	M1 (Preferred Industrial-Commercial))				
OFFICES			M2, M3, M4			M1 (Prestige)
HOME BUILDING SUPPLIES		M1 (Small Scale)	M3, M4			M1 (Prestige)
BANKS	M-12					
SERVICE SHOPS AND SERVICES TO INDUSTRY	M-12, M-14, M-15, JJ**		M3, M4, M2**		M1, M3	M1 (Prestige) M3 (Village)
RESEARCH CENTRE		M4	M2, M3,			
LABORATORIES	M-12, M-13, M-14, M-15		M2, M3, M4			
SHOWROOMS			M2, M3,			M-1 (Prestige)
BOWLING ALLEYS	M-13		M3			
PUBLIC GARAGES	M-15, JJ				M1 (EF)	
APPLIANCE, TV, STERO STORE	M-14, M-15					
RETAIL STORES	JJ					
RETAIL WAREHOUSES						
RESTAURANTS						

* Not every commercial use permitted in an industrial zone is listed in this table. Furthermore, several specific descriptions in zoning by-laws have been generalized to one category in some cases.

** With limitations.

*** Unless otherwise specified, the zone symbols apply to similar zones in the East Flamborough, West Flamborough, and Beverley by-laws.

TABLE 5

INDUSTRIAL ZONING CLASSIFICATION

BY MUNICIPALITY

	INDUSTRIAL ZONES THAT DO NOT PERMIT COMMERCIAL USES		INDUSTRIAL ZONES THAT PERMIT COMMERCIAL USES	
	INSIDE I.B.P.s	OUTSIDE I.B.P.s	INSIDE I.B.P.s	OUTSIDE I.B.P.s
HAMILTON	-	J3 Prestige Industrial	M-11 Prestige Industrial M-12 Prestige Industrial M-13 Prestige Industrial M-14 Prestige Industrial M-15 Prestige Industrial	J Light and Limited Heavy Industrial JJ Restricted Light Industrial K Heavy Industrial KK Restricted Heavy Industrial
STONEY CREEK	M2 Preferred Industrial M3 General Industrial M6 Rural Industrial	M2 Preferred Industrial M3 General Industrial M4 Public Industrial M5 Extractive Industrial: M6 Rural Industrial	M1 Small Scale Industrial	M1 Small Scale Industrial M1 Preferred Industrial-Commercial
ANCASTER	M1 Non-Serviced Industrial**	M1 Non-Serviced Industrial**	M2 Prestige Industrial M3 Light Industrial M4 General Industrial	
DUNDAS		M1 Light Industrial M2 Select Industrial M3 General Industrial M4 Public Industrial		
FLAMBOROUGH	***	M4 Public Industrial (BEV, WF, EF) M5 Extractive Industrial (BEV, WF, EF) M6 Storage Industrial (WF)	***	M1 Village Industrial (BEV, WF) M3 General Industrial EF, BEV, WF) M1 Light Industrial
GLANBROOK		M4 Public Industrial	M1 Prestige Business/Industrial M3 General Industrial	M1 Village Industrial M3 General Industrial

* In some zones accessory uses include retail outlets accessary to the principal industrial use.

** Ancaster's M-1 zone permits commercial kennels.

*** Flamborough has not zoned the Clappison's Corners Industrial-Business Park for industrial use yet.

In theory, tax savings for businesses could be realized by manipulating the zoning in the parks to encourage the assessors to apply the lower of the industrial or commercial assessment factors. In municipalities where the commercial factor is lower than the industrial factor, commercial zones could be introduced into the park. In municipalities where the industrial factor is lower than the commercial factor, the permitted uses in industrial zones could be broadened to permit selected commercial uses.

In practice, these tax advantages either are already available, or are unlikely to be achieved in the long run because zoning affects assessed market values as well as the choice of assessment factors. If they were achieved, the municipalities would lose industrial and commercial tax revenue, which would have to be recovered from other classes of assessment.

In **Ancaster, Flamborough and Glanbrook**, commercial uses in industrial zones would pay lower taxes than in commercial zones, regardless of whether the property was inside or outside a park. This would occur because the industrial factor in these municipalities is lower than the commercial factor and because market values of industrial land generally are lower than commercial land. However, the differences in taxes are relatively small. Locational decisions probably would be affected more by land prices, transportation access and other criteria than by small differences in assessment and taxation.

The assessment discount factor in **Stoney Creek** is significantly higher for industrial properties than for commercial properties (29.751 versus 19.701 respectively). Since zoning affects the assessor's choice of assessment factors, it would appear that the Stoney Creek Industrial-Business Park could be made more attractive to commercial uses by introducing commercial zoning, provided that market values did not increase enough to offset the effect of the change in assessment factors.

However, information provided by the Assessment Office indicates that the difference in market value between industrially and commercially-zoned properties could easily offset the effect of the discount factor. For example, an industrially-zoned property in the Stoney Creek Industrial-Business Park probably would be assessed at a maximum of $65,000 per acre, although the value would depend on the size and location of the property.[1] Commercially-zoned property would probably be assessed at $3.00 - $5.00 per square foot, which translates into approximately $130,000 to $220,000 per acre. Under these circumstances taxes would be higher on a commercially-zoned property than an industrially-zoned property, assuming equivalent buildings and property characteristics. This would occur even though the industrial factor is significantly higher than the commercial factor in Stoney Creek.

1. Comparable rates are approximately $80,000 per acre for the Bay Front Industrial Area, adjusted according to property size, and $25,000 per acre for the Mountain Industrial-Business Park.

A commercial use in the Stoney Creek Industrial-Business Park would pay lower taxes if it were assigned a commercial factor but the land was assessed on the basis of industrial market values. This could happen in the short term if selected commercial uses of a similar type were rezoned from industrial to commercial and no significant increase in land prices could be substantiated. The Assessment Office has indicated that assessors would probably continue to assess the market value of commercially-zoned properties in the Industrial-Business Park at the same rates as the rest of the park in the short term, although surrounding land values and the treatment of similar uses in the park would enter into the individual assessor's judgment of each case.

The assessed market value of properties rezoned from industrial to commercial would be re-evaluated on the basis of sales data for the commercially-zoned properties. If sales data indicated that they sold at commercial prices then the assessed market value would be revised upward, which could eliminate the tax reduction. Even if little sales data were available to the assessors, it is possible that such properties would be assessed at commercial rates at the next reassessment.

Furthermore, a rezoning to commercial for properties in an industrial area would not necessarily trigger automatic application of the assessment factor, according to the Assessment Office. It would depend on the type of use on the property and the treatment of other similar uses in the area.

Assessed market values in the commercial areas of Stoney Creek may be sufficiently higher than in the Industrial-Business Park that commercial uses already have an incentive based on assessment to locate in industrial zones in the Industrial-Business Park, other things being equal. The fact that they are not doing so may be due to restrictions on the kinds of commercial uses permitted in the industrial zones in the park, or to other locational considerations outweighing property taxes, or to ignorance of tax differences between industrial and commercial zones.

The same reasoning applies in Hamilton, which also has an industrial factor higher than its commercial factor. Industrial zones both inside and outside the Mountain Industrial-Business Park permit extensive commercial uses. The introduction of commercial zones in the park would provide an incentive for commercial uses to locate in the park only if the assessed market values of those properties in the long run did not change to offset the effect of the lower factor.

Since the industrial factor in Hamilton is only 15 per cent higher than the commercial factor, it is highly likely that the differences in assessed market values between commercial and industrial zones more than counteracts the effect of the differences in factors. Most commercial uses with a choice therefore would already have an incentive to locate in an industrial zone, if assessment and property taxes were the only consideration.

CONCLUSIONS

There is no need to alter the zoning to attract commercial uses that could locate in either commerical or industrial zones to the Industrial-Business Parks in Ancaster, Flamborough and Glanbrook. These uses already have a tax-based incentive to locate in the parks, because the industrial factors are lower than the commercial factors in these municipalities, and the market value of industrial property is generally lower than for commercial property.

Although the industrial factors in Hamilton and Stoney Creek are higher than the commercial factors, there are several important disadvantages to introducing commercial zones to the Industrial-Business Parks in Hamilton and Stoney Creek for the purpose of attracting additional development.

Firstly, the Assessment Office may raise the assessed market value if future sales data indicate that commercially-zoned properties in the parks are selling at commercial values, which could offset any gain from the application of a commercial rather than an industrial assessment factor. The short term tax advantage therefore may prove illusory. If vacant properties are zoned commercial, then commercial market values may be applied immediately.

Secondly, a tax-based incentive to locate in the industrial zones in the parks may already exist if commercial market values outside the parks are sufficiently higher than industrial market values in Hamilton and Stoney Creek.

Thirdly, the municipalities would lose industrial and commercial tax revenue, which implies a shift in the tax burden to other uses, primarily residential. The magnitude of the loss would depend on the difference in taxes between commercial and industrial zones in the parks and the number of uses that selected commercial zones in the parks in preference to commercial areas outside the parks.

Fourthly, the introduction of a significant amount of commercial zoning to the parks probably would result in fewer potential locations for commercial uses in the parks, compared to a policy of allowing commercial uses in industrial zones.

Zoning therefore is not an appropriate policy instrument for attempting to improve the attractiveness of Hamilton-Wentworth's Industrial-Business Parks. Differences in assessment factors for similar uses in commercial and industrial zones in Hamilton and Stoney Creek do not normally translate into equivalent differences in assessment, because of the compensating influence of differences in market value.

However, some inequities in assessment between similar uses inside and outside the Industrial-Business Parks may exist because of the Assessment Office's use of zoning categories to determine whether to apply a commercial or industrial assessment factor. This situation could be largely remedied if the Assessment Office placed more emphasis on the use of the property, rather than its zoning category.

Factors such as transportation access, land prices and labour markets, exert a much more important influence on locational decisions than assessment. Property taxation loads may be important in some cases, particularly for small businesses where property taxes are a high proportion of annual cash flow. However, the impact of current zoning practice on assessment and taxation is unlikely to be creating significant market distortions that adversely affect the development of the Industrial-Business Parks.